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Federal Trust Funds:

Budgetary and Other Implications

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I.

Introduction

Trust funds are defined in the Federal budget document as those funds "established to account for receipts which are held in a fiduciary capacity by the Government for use in carrying out specific purposes and programs." There is, however, great variety in the size and kinds of trust funds.

According to the Office of Management and Budget there were 831 trust fund accounts on the books of the Treasury Department, as of May 1970. Included are 673 Indian tribal funds which, for budget purposes, are consolidated and treated as one fund. Eighteen others are designated as "trust revolving" funds; they carry on a cycle of business-type operations and are normally reported in the budget on a net basis (outlays vs. receipts) – the Federal Deposit Insurance Corporation is a prime example of this type.

Excluding the Indian tribal and trust revolving funds, there are thus about 140 of what may be described as "regular" trust funds, under the budgetary definition. Many are small and relatively unfamiliar. Fourteen major funds account for all but a minor portion of total trust fund finances reported in the budget. These finance the principal social insurance programs, Federal employee retirement and other benefits, veterans insurance programs, and major transportation programs. The Congress this year established a major new trust fund, the airport and airway trust fund.[1]

In both size and scope, the operations of Federal trust funds have grown significantly in recent years. For the current fiscal year (1971) trust fund receipts are estimated at $64.1 billion, and outlays at $55.4 billion. By comparison, actual trust fund receipts and outlays as recently as fiscal 1965 were less than half as large – $29.2 billion and $27.0 billion, respectively.

The new unified Federal budget concept, adopted in fiscal 1969, includes trust fund receipts and outlays along with strictly Federal (or general) funds and the net result of the operations of Federal lending programs. This change followed the recommendations of the President's Commission on Budget Concepts, appointed in 1967 by President Johnson. Inclusion of the trust funds, of course, enlarged the scope of the budget and substantially increased overall totals.

Prior to fiscal 1969, the Federal budget concept most familiar was the "administrative budget," which excluded trust fund operations. Two other measures of Federal financial transactions – the consolidated cash statement and the Federal sector of the national income accounts – did partially include transactions of trust funds.

1. Public Law 91-258, approved May 21, 1970.

The new budget concept initially gained general acceptance. However, in recent months criticisms have been voiced, particularly within the Congress, on the ground that the new unified budget tends to obscure the "true state" of Federal finances (with large current trust fund surpluses more than off-setting substantial deficits in the general fund accounts). Congress has no control over trust fund expenditures through the annual appropriation process and but limited control otherwise;[2] thus Congress is inclined to focus its attention and concerns upon the Federal funds sector of the budget. This sector conforms generally to the old administrative budget concept.

Additionally, Congress so far has declined to alter the concept of Federal debt or the statutory debt limitation to accord with the unified budget concept, as recommended by the Commission on Budget Concepts. The trust fund statutes require that unneeded balances in the funds be invested in Treasury securities, and in recent years the amount of Federal debt held by these funds has been increasing while that held by the public has been declining. This development also raises interesting questions.

The 1970 establishment of the new airway trust fund, and current controversy over a proposal to broaden the highway trust fund so as to provide financing for other Federal or Federally-aided transportation programs, also direct attention to the use and operation of the trust fund device.

Scope of Study

Trust fund programs loom increasingly large in the total picture of Federal finances. This study examines the operation of the funds, their character and growth, and their budgetary and other implications. The focus is primarily upon the 14 major trust funds.

The study attempts no evaluation of the philosophy or merits of programs financed through the trust funds; however, certain questions are raised as to the appropriateness of the use of this funding device for certain types of programs.

Most of the information included is based upon material provided in Federal budget documents, reports provided by the Treasury Department and the agencies which administer the trust funds, and Congressional reports and debates. Except where specially noted, all years mentioned refer to the Federal fiscal year, ending June 30.

Sections II and III explore the background and nature of the major trust funds, their growth, and current status. The fourth section analyzes the implications of the trust funds in the context of the unified budget concept. Section V discusses the trust funds in relation to problems of expenditure control. The relationship of the funds to public debt issues is examined in Section VI. The final section summarizes major issues and offers some general comment and conclusions.

2. This matter of controllability of trust fund expenditures requires further explanation. The Executive can exercise some control over certain trust fund outlays, such as those for highway construction. Control of trust fund outlays by Congress through the regular annual appropriation process is definitely limited. But Congress does affect these outlays through the legislative process—for example, by frequent actions to adjust social security benefit levels, the taxable wage base, or social security payroll tax rates. In a broader technical sense, of course, Congress *could* exercise whatever control over these programs it desired, through amendment of the basic statute, even to abolishing trust funds or programs currently financed through this device.

II.
Nature of Trust Funds

Federal trust funds of the kind and scope currently operating are a comparatively recent innovation. Prior to 1920 the Department of the Treasury acted as custodian of numerous accounts which were referred to as "special trust funds," but these really were simply deposit or "holding" funds. They had none of the characteristics of the huge trust funds which currently account for nearly one-third of all Federal receipts, and about one-fourth of all expenditures.

Most of the more than 800 trust fund accounts on the books of the Treasury today are still, in effect, deposit funds. The hundreds of Indian tribal funds are essentially of this type. The list also includes numerous other funds which serve primarily as depositories for special gifts or donations, for receipts from sales, or for fees for services.

The 14 major trust funds account for 98 percent of all trust fund receipts and almost 99 percent of their outlays. These funds are identified in Table 1; it also indicates for each the basic source of financing, the administering agency, and the statute under which each was created.

Characteristics of Major Funds

These 14 major funds have certain distinctive characteristics. They are variously financed through special taxes on employees and/or employers, other earmarked taxes, contributions by individuals and the government, payment of premiums, with substantial contributions from general funds in certain instances. They provide benefits or related services to specified groups of individuals, or insure availability of funds for specified purposes or programs, under statutory directives. Amounts not needed for current operations or payments must, by statute, be invested in Treasury securities (usually special issues) or Federal agency issues, with certain relatively minor exceptions. Accordingly, they derive substantial amounts of interest income. Their outlays are subject to only limited review and control through the annual Congressional appropriation process.

The forerunners of this group of trust funds were the United States Government life insurance fund and the civil service retirement and disability fund. The former was created by Congress in 1919, to receive premiums and pay claims on insurance issued to veterans under provisions of the War Risk Insurance Act. Unneeded balances were "available for the purpose of investment."[1]

The Civil Service Retirement Act of 1920 established the civil service retirement and disability fund, financed initially by employee contributions only. This act included a provision relating to the investment of unneeded fund balances which set the pattern for what has

1. *Annual Report of the Secretary of the Treasury*, fiscal year 1920.

Table 1

Major Federal Trust Funds—Selected Characteristics

Account	Basic financing	Administering agency	Statute
SOCIAL INSURANCE			
Federal old-age and survivors insurance trust fund	Special payroll tax on covered employees and employers, and on self-employed individuals, interest on investments, some general fund contributions	Social Security Administration, Department of Health, Education, and Welfare	Public Law 76-379 August 10, 1939 Social Security Act Amendments of 1939
Federal disability insurance trust fund			Public 84-880 August 1, 1956 Social Security Act Amendments of 1956
Federal hospital insurance trust fund	Special payroll tax on covered employees and their employers and on self-employed individuals, contributions from general revenues to cover benefits to aged persons not eligible under social security program		Public Law 89-97 July 30, 1965 Social Security Act Amendments of 1965
Federal supplementary medical insurance trust fund	Monthly premium payments by enrollees with matching contributions from general revenues, premium payments deducted from monthly benefit payments to social security, railroad retirement, or civil service recipients		
Unemployment trust fund	Special state payroll taxes, primarily from employers, Federal tax for administrative costs	Bureau of Employment Security, Manpower Administration, Department of Labor	Public Law 74-271 August 14, 1935 Social Security Act of 1935
Railroad employees retirement accounts	Special payroll taxes paid by railroad employees and their employers	Railroad Retirement Board	Public Law 75-162 June 24, 1937 Railroad Retirement Act of 1937

Table 1—(Continued)

Account	Basic financing	Administering agency	Statute
FEDERAL EMPLOYEES			
Civil Service retirement and disability fund	Federal civilian employee contributions as a deduction from wages, matched by Federal contributions	U S. Civil Service Commission	Public Law 66-215 May 22, 1920 Civil Service Retirement Act
Employees life insurance fund	Premiums withhheld from Federal civilian employees, with a 50 percent matching by employing agency		Public Law 83-598 August 17, 1954 Federal Employees' Group Life Insurance Act of 1954
Employees health benefits fund	Payroll withholdings from employees' salaries and annuitants' benefits with general fund payments of 40 percent of cost		Public Law 86-382 September 28, 1959 Federal Employees Health Benefits Act
Retired employees health benefits fund	Contributions from enrolled participants and general Treasury fund		Public Law 86-724 September 8, 1960 Retired Employees Health Benefits Act
VETERANS			
United States Government life insurance fund	Premium payments by eligible veterans	Veterans Administration	Public Law 66-104 December 24, 1919
National Service Life Insurance fund	Premium payments by covered members of the armed forces		Public Law 76-801 October 8, 1940 National Service Life Insurance Act of 1940
TRANSPORTATION			
Highway trust fund	Federal taxes on motor fuel, lubricating oil, tires and tubes, new trucks, buses and trailers, truck and bus parts and accessories, and on heavy vehicle use	Federal Highway Administration, Department of Transportation	Public Law 84-627 June 29, 1956 Federal-Aid Highway Act of 1956
Airport and airway trust fund	Passenger excise tax, international passenger head tax, gasoline and jet fuel tax, air cargo waybill tax, annual commercial airplane registration fee plus takeoff weight per pound charge	Federal Aviation Administration, Department of Transportation	Public Law 91-258 May 20, 1970 Airport and Airway Development Act of 1970

become an important feature of all major trust funds. It directed the Secretary of the Treasury "to invest from time to time in interest-bearing securities of the United States" such portions of the fund as "in his judgment may not be immediately required for the payment of annuities, etc.," with "the income derived from such investments to constitute a part of the fund."[2]

Subsequent acts of Congress have adjusted the premiums or contributions paid into these funds, and the levels of benefits, refined the investment requirements, and provided for regular government contributions from general funds to the civil service retirement fund.

No additional trust funds of major importance were established until 1935. In that year, with enactment of the original Social Security Act,[3] the unemployment trust fund was established, from which payment of unemployment compensation benefits are made. The basic financing is derived from special state payroll taxes, primarily on employers. A Federal tax (0.4 percent of the first $3,000 of covered employees' wages) is also levied to finance Federal-state administrative costs.

The Social Security Act of 1935 also established the old-age and survivors insurance program. Initially the financial transactions for this program were handled through an "old age reserve account;" the Federal old-age and survivors insurance (OASI) trust fund was established (effective January 1, 1940) with the enactment of the Social Security Act Amendments of 1939.[4] Financed by a special tax on covered employees and their employers (and by subsequent action, from the self-employed), it is from this fund that the basic old-age (social security) benefits are paid.

The Railroad Retirement Act of 1937[5] established another trust fund – the railroad retirement account–through which are paid all annuities, pensions, and death benefits of railroad workers. The basic financing for this fund is provided by special taxes paid by railroad employers and employees. Provision also has been made for annual financial interchanges with the social security system.

Other trust funds in the social insurance category were created later. The Federal disability insurance trust fund was established by the Social Security amendments of 1956,[6] to handle financial operations of the system of monthly disability benefits payable to insured workers and their dependents. It derives its financing from the same source as the OASI fund, i.e., special employment taxes. The Federal hospital insurance and supplementary medical insurance trust funds came into being with enactment of the Social Security Act Amendments of 1965.[7] The hospital insurance program provides protection for persons on the social security and railroad retirement rolls, and certain others, against costs of inpatient hospital services, post-hospital extended care services, and post-hospital home health services. It is also financed by a special tax on covered employees and employers, and the self-employed; costs for beneficiaries not under social security or railroad retirement programs are met from general revenues. The supplementary medical insurance trust fund is financed through monthly premium payments by enrollees, with matching contributions from general revenues of the Treasury. Almost all persons aged 65 and over are eligible for enrollment in this program, designed to cover costs of physicians' services not covered under the hospital insurance program, outpatient services, and certain other medical costs.

Legislation in 1940[8] established the national service life insurance trust fund, to provide a system of life insurance for persons in active service in the military forces in World War II. The program is largely self-supporting, except for administrative expenses and certain extraordinary claims. It is financed primarily through payment of premiums by the insured, plus investment income.

The list of major trust funds also includes three others established to provide additional benefits for Federal employees. The Federal employees life insurance fund to finance payments to private companies for employees' group life insurance was inaugurated in 1954.[9] Financing is provided by premiums withheld from the salaries of employees, and a 50 percent matching by the employing agencies. In 1959 the Federal employees health benefits trust fund was created.[10] This fund pays health benefits for active Federal employees and for those who retired after June 1960, or their survivors, with the monies provided by withholdings from active employees and annuitants, and general fund contributions (which have recently been increased to 40 percent of the cost).[11] In 1960 a separate fund was established[12] to finance both the cost of health benefits for retired employees and survivors who enroll in a government-sponsored uniform health benefits plan and contributions to retired employees and survivors who retain or purchase private health insurance. Contributions from enrolled participants and a government contribution from general funds support this fund.

A Departure

These social insurance, Federal employee benefit, and similar trust funds have one common denominator: their basic financing is provided largely through special taxes or contributions on individuals, or groups of individuals for programs which will subsequently provide benefits to the contributing individuals. These 12 funds thus appear to fall within the budgetary definition of funds held in a "fiduciary capacity" by the Federal Government.

The other two major trust funds – the highway and the new airport and airway trust funds – depart somewhat from this pattern. The highway fund was established in 1956.[13] Its purpose is to provide for completion of the national system of interstate and defense highways, and increased support for the Federal-aid primary and secondary road systems (referred to as the "ABC" program), through 1972. Revenues derived from Federal taxes on motor fuel, lubricating oil, tires and tubes, new trucks, buses, and trailers, truck and bus parts and accessories, and the heavy vehicle use tax, are dedicated to this trust fund. Col-

2. Public Law 66-215, and *Annual Report of the Secretary of the Treasury*, fiscal years 1921 and 1922.
3. Public Law 74-271.
4. Public Law 76-379.
5. Public Law 75-162.
6. Public Law 84-880.
7. Public Law 89-97.
8. Public Law 76-801.
9. Public Law 83-598.
10. Public Law 86-382.
11. Public Law 91-418.
12. Public Law 86-724.
13. Public Law 84-627.

lected from the producer, these taxes are passed along through distributors and dealers and ultimately are paid by consumers.[14] The trust fund is the sole source of Federal support for the Federal-aid ABC and interstate highway programs.

The new airport and airway trust fund follows almost the same pattern. It is designed to provide assured levels of Federal assistance for the construction, improvement, or repair of public airports (including land acquisition), establishment, or improvement of air navigation facilities, and related research and development activities. These activities will be financed through designated Federal taxes earmarked for this fund – a tax on domestic air passenger tickets, a head tax on passengers departing on international flights, additional levies on air freight waybills, aircraft fuels, aircraft tires and tubes, and an aircraft use tax. General fund contributions will be required for several years to supplement this fund.

The significant differences between these two and other trust funds described have been pointed out: the revenues which support the highway and airway funds are, in some opinion, essentially general-type revenues, withheld from the general fund of the Treasury and specifically earmarked to finance these programs; and the programs so financed are said to be of a more "public" nature than the limited special benefit purpose of the social insurance and other trust funds.

The earmarking of revenues, particularly for general purposes, has long been looked upon with disfavor by many students of public finance. An earlier Tax Foundation study[15] cited these objections levelled by critics of earmarking: the practice can hamper effective budgetary control; it can lead to a misallocation of funds, giving excess revenues to some functions while others are undersupported; it introduces a strong element of rigidity into the budget; earmarking statutes tend to remain in effect after the purpose for which they were established has been accomplished; and, finally, earmarking infringes on the policy-making powers of both the executive and the legislature.

Proponents of earmarking, on the other hand, contend that the practice makes it possible to require those who benefit from a government program to pay for it; that it assures a minimum level of support for desired governmental activities along with continuity for specific projects; and that earmarking can help to induce the public to support new or increased taxes.

More Earmarking?

While numerous proposals to expand the scope, coverage, and outlays of the social security, health insurance, and similar funds are regularly advanced, some of the strongest recent pressures for expansion of trust fund operations have been focused upon the "earmarking" type of fund. The establishment of the airport and airway trust fund resulted from such pressures. Previously, Federal assistance for airport construction and related programs had been financed from the general fund. Proposals for new taxes on aircraft fuel, etc., were repeatedly ignored or rejected – until in 1970 such taxes were specifically tied to spending for airport and airway facilities.

14. *Federal-Aid Financing and the Highway Trust Fund* (FE-Summary-1969), Federal Highway Administration, Department of Transportation.

15. *Earmarked State Taxes*, June 1965.

Proposals now pending would shift the financing of forest and public land highways from the general fund to the trust fund. It is also proposed to finance highway beautification and safety programs through the trust fund, or to establish a separate trust fund for this purpose. Additionally, recommendations have been made that the scope of the highway fund be expanded to provide funds for bridge replacement on Federally-aided road systems, to provide trust fund financing for a new urban highway system, and other similar programs.

Considerable attention is being given currently to a proposal, supported by the Secretary of the U. S. Department of Transportation, under which the present highway and airway trust funds would be combined into an expanded single transportation fund to provide Federal support for all modes of transportation and types of projects.

Another program innovation now in the spotlight also would involve the earmarking of substantial general revenues – Federal revenue sharing with states and local governments. The Nixon Administration has advanced this tax sharing plan as a key element in its "new Federalism." While the proposal does not envision creation of a new trust fund, it would establish a permanent appropriation account in the Treasury, funded by an "earmarked" percentage of certain tax collections (or the tax base), and would thus operate in much the same way as do the trust funds. Section V discusses this proposal.

Such expansions, if approved, could be expected to generate demands for use of the trust fund and similar devices to support other programs and activities. And such action, if taken, could have important budgetary implications, affecting both revenues and outlays, as well as controllability.

In the last few years the Congress has sought to impose a "ceiling" on annual budget outlays by enacting a legislative expenditure limitation. Such limitations, however, have usually exempted the expenditures of the social security and similar trust funds, along with certain other "relatively uncontrollable" programs; thus the limits have not affected trust fund expenditures.[3] Obviously, if restraint on the growth of total Federal spending appears desirable, the exclusion of these large amounts will materially impair efforts to achieve that restraint. This omission has in fact contributed to the impairment of effectiveness of recent attempts to impose a legislative limitation on spending.

Program Priority Aspects

Criticism also has recently been directed at certain trust fund operations on the ground that they can adversely affect efforts to re-order budgetary priorities. In recent testimony before a Senate Public Works subcommittee, Senator Gaylord Nelson strongly urged that the segregation of highway tax monies be terminated, and the highway trust fund abolished. "Sound fiscal policy," he argued, "would dictate that Federal-aid highway funds be appropriated in consideration of a total view of national priorities." This is admittedly a controversial issue, with others vigorously defending the dedication of user taxes for highway construction and improvement.

Trust fund operations may, however, also affect the availability of general Treasury funds for other programs in other ways. Under the trust fund statutes the government is required to make substantial general fund contributions to the civil service retirement fund, the social security and health insurance funds, and certain others. In 1969 such general fund contributions totaled more than $4.0 billion. This is in addition to the payment of more than $3 billion in interest, also from general revenues, on debt securities held by the trust funds. Thus a total of more than $7 billion from general revenues, which might otherwise be available for other Federal programs or for tax relief, was paid to the trust funds in that year.

Finally, the trust funds have regularly been accumulating substantial surpluses each year, and are expected to do so for some years in the future. General fund payments into the trust funds contributed significantly to these surpluses. Since the balances in these funds in excess of current operating needs must be invested in Treasury securities, the surpluses provide a ready source of borrowing which does not require the Treasury to compete in the private capital markets. The question arises, therefore, as to whether this practice may not encourage debt financing of other new or expanded Federal spending programs, or at least lessen the resistance to proposals requiring increased outlays.

3. *Congressional Expenditure Limitations: An Evaluation*, Tax Foundation, November 1969.

VI.
Trust Funds and the Public Debt

Unquestionably, one of the most confusing aspects of trust fund operations is their relationship to the make-up and concept of the Federal debt, and to the statutory debt ceiling. And with an increasing proportion of the total Federal debt consisting of securities held by trust funds, this confusion is aggravated, both for citizens and officials.

At the end of 1969 the amount of Federal debt held by the public was $279.5 billion, and that held by trust funds and Federal agencies totaled $87.7 billion. By the end of 1971, however, debt held by the public is estimated to decline slightly, while that held by trust funds and agencies is projected to increase to more than $105 billion. This trend will likely continue so long as the trust funds accumulate sizable surpluses each year.

The Commission on Budget Concepts recommended adoption of a debt concept consistent with the definitions of budget receipts and outlays under the unified budget concept. In so doing, the report explained:

> The unified budget recommended by the Commission entails the elimination of all intragovernmental transactions among different funds and agencies included in that budget. Thus the Commission's recommendations point to the exclusion from the definition of Federal securities held by the public the holdings of all such securities by any Government account, trust fund, or agency whose receipts and expenditures are included in the budget.

Basically, adoption of such a debt concept would add to the present concept certain securities issued by Federal agencies, to produce a total of "gross debt outstanding," from which Treasury and agency securities held by government agencies and by trust funds would then be deducted to produce the "net debt" concept. Essentially, this net debt would be limited to Federal securities "held by the public."

The commission made no recommendation with respect to changing the statutory debt limitation, but did suggest re-examination of that ceiling with the new debt concept in mind.

Position of Congress

When Treasury and budget officials appeared before the House Ways and Means Committee in early 1969 and again in 1970, to seek increases in the statutory debt ceiling, they urged a change in the concept of debt subject to the statutory limitation to conform with the budget concept commission's recommendation. In suggesting that the understanding of the Congress and the public would be enhanced "if the debt subject to the limit were brought more in accord with the unified budget concept," former Director of the Budget Robert P. Mayo pointed out:

> Under the present concept, an increase in the debt limit of considerable size is needed, even though our estimated budget deficits are small. This need occurs because the laws establishing the trust funds require that we invest their surplus funds in government securities. As long as the trust funds are operating at a surplus, and thus acquiring addi-

tional Treasury issues, the debt subject to the ceiling increases even if the overall budget is in balance. Conversely, if at some time in the future, the trust funds happened to operate at a deficit, the debt subject to limit might decline, even though the unified budget had no surplus.[1]

The point was demonstrated in 1969 when, even though the unified budget was in a surplus position, the Treasury was required to request a substantial increase in the statutory debt limit; Congress had no alternative but to comply.

Mr. Mayo also argued that "from an economic analysis standpoint, the debt that is important here is the debt held by the American public–individuals, banks, insurance companies, and so on. This is the debt that affects interest rates directly. The debt held by the trust funds has only a very indirect effect on interest rates."[2]

The reaction of the Ways and Means Committee in both instances, however, was negative; the recommendation was not acted upon. While acknowledging the confusion which now exists, some members of the committee argued, in effect, that "debt is debt," and that to differentiate between debt held by the public and that held by trust funds would not dispel confusion, but only create as much or more, even though in a different direction. The following colloquy between Representative Byrnes and Secretary of the Treasury David M. Kennedy, during a 1970 committee hearing, illustrates the point:

MR. BYRNES. There isn't any difference, is there, in borrowing from the general public or borrowing from the trust funds?

SECRETARY KENNEDY. There is a terrific market difference, yes, but not from the standpoint of the total–interest rates, economy and so on.

MR. BYRNES. But as far as the obligation of Uncle Sam is concerned, as far as the obligation of the general government is concerned, a bond or a note held by a trust fund is just as much an obligation and just as much a part of the debt as a bond held by an insurance company or anyone else in the public.

SECRETARY KENNEDY. It is a part of the debt of the United States, that is right.

MR. BYRNES. It is the same kind of obligation. It has to be paid.

SECRETARY KENNEDY. It has to be paid. It is a debt, that is right.[3]

The committee also took the position – which, in the light of later action, appeared also to represent the position of the Congress – that it was the unified budget concept, as much as the debt concept, which was responsible for the confusion over this issue. This position was spelled out in the committee's report on the most recent debt ceiling increase measure:

The difficulty, of course, is that the debt limitation, in most respects, is based upon the Federal funds budget rather than the unified budget which is the budget generally presented to the public. The unified budget shows the deficit or surplus, however, not just in the Federal accounts as such, but also takes into account the various trust funds which the Federal Government holds in what, for the most part, can be considered as a fiduciary capacity. As a result, while the unified budget may represent the appropriate way to view the budget from the standpoint of its overall economic impact or in viewing its financing insofar as the public is concerned, it does not reflect the cost of managing what is strictly the Federal funds as distinct from trust funds. To concentrate only on the unified budget when considering the Federal Government's debt ignores the debt owed these trust funds by the Federal Government.[4]

1. Hearings before the Committee on Ways and Means, House of Representatives on the Administration's proposal to increase the statutory debt ceiling, May 1970.
2. *Ibid.*
3. *Ibid.*

In line with this viewpoint the committee – and others in Congress as well – insisted that more emphasis be focused upon the general Federal funds budget. In the report just quoted, the committee also requested budget officials to include a new section in future Federal budget documents which "will develop the Federal funds deficit or surplus in much the same way as the present document develops the unified budget," to be "placed toward the forefront of the budget document so that the Federal funds concept will receive adequate attention by the public."[5]

The attitude of the committee and the Congress probably also reflects the fact that many Members regard the statutory debt limitation as a valuable, if imperfect, tool for enforcing some degree of expenditure restraint or control. In this view, a change in the concept of debt subject to the statutory limitation which would exclude trust fund debt from that ceiling would tend to weaken it as an instrument for requiring expenditure restraint. Representative Mills of Arkansas, Ways and Means Committee Chairman, probed at this point during the 1970 debt ceiling hearings, when he stated:

If we did what was recommended last year or the year before, I believe, and brought the debt ceiling concept into proper relationship with the unified budget concept, the excess of the increase in intake in the trust funds over the outgo from the trust funds would make it possible in almost all situations to provide a sufficient cushion to take care of the deficits that you would normally accumulate in the Federal [funds] accounts.[6]

Investment Policies

The basic statutes creating the major trust funds impose upon the Secretary of the Treasury the duty of investing such portions of those funds as is not required to meet current withdrawals, but "only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States." In addition those statutes, in all but one or two instances, provide for issuance of special issues exclusively to the trust funds, and include provisions determining the rates of interest paid on securities held by the trust funds. In certain cases, notably the social insurance and civil service retirement funds, the statutes also require that special issues shall have maturities fixed with "due regard to the needs of the trust funds."

Most of the trust fund investments have been in special Treasury issues – over 85 percent as of December 31, 1969. Some of the trust fund statutes have provided that such special obligations shall be issued "only if the Secretary of the Treasury determines that the purchase of other interest-bearing obligations of the United States, or of obligations guaranteed as to both principal and interest by the United States on original issue or at the market price, is not in the public interest."[7] It has, however, been the basic policy of every Secretary of the Treasury to invest trust fund monies mainly in special issues, irrespective of the wording of the basic statute. Some of the

4. House Report 91-1130, accompanying H. R. 17802, May 1970.
5. *Ibid.*
6. Hearings before House Ways and Means Committee on the Administration request for an increase in the debt limit, May 1970.

reasons in support of this policy cited earlier by the Treasury Department, and still considered appropriate, are:

> The practice of issuing special obligations to Government trust funds, instead of permitting them to satisfy their investment requirements through open market purchases of Government obligations, has been followed because of certain important advantages that have become apparent. Among these have been the following: (1) The bond market is not disturbed periodically by purchases and sales of large blocks of securities; (2) the trust funds are provided with a ready avenue of investment and no attention need be given to short-term fluctuations in market prices; (3) in the case of retirement and social security funds, the funds can always earn the interest return specified by Congress when it fixed the appropriations for the funds; and (4) savings can be effected because of the smaller number of securities to administer, and commissions to brokers on purchases and sales are eliminated.[8]

The single compelling reason cited for investing trust fund monies in marketable securities rather than special issues has been the need to stabilize the Government securities market, i.e., one in which prices are falling. But it is pointed out that these are also the times when the narrower interests of the trust funds are likely to be served by acquisition of special issues.[7] Additionally, market purchases would deprive the Treasury of the use of the cash for current operations, and require it to replace the special issues through new market borrowings.

The reference to "use of the cash" for current operations raises a point which has on occasion been the focus of some controversy. There have been criticisms of this practice, on grounds that it "compromised" the trust funds and might result in an inability to meet benefit and other commitments of those funds in future years. The response of officials is to point out that (1) the funds are separately accounted for, and there is no question that the debt securities held by the trust funds will be redeemed as required, as would any other debt issues, and (2) if the Treasury did not borrow from the trust funds it would be required to go into the market for its financing needs more frequently.

7. Such a provision was included in the most recent of these statutes, Public Law 91-258, establishing the airport and airway trust fund, approved May 21, 1970.

8. *Annual Report of the Secretary of the Treasury*, fiscal year 1940.

Table 6

Investments of Trust Funds, as of December 31, 1969
(Millions)

Trust fund	Total public issues	Special issues	Total Treasury securities	Agency securities	Non-Federal securities	Grand total
Old age and survivors insurance	$3,522	$23,718	$27,240	$ 640	$ 20	$27,900
Disability insurance	315	3,428	3,743	115	20	3,878
Supplementary medical insurance	—	182	182	—	—	182
Hospital insurance	—	2,408	2,408	70	—	2,478
Unemployment	2,254	10,675	12,929	215	20	13,164
Highway	—	1,953	1,953	—	—	1,953
Railroad retirement	793	3,235	4,028	210	20	4,258
Civil service retirement and disability	2,418	17,818	20,237	510	20	20,767
National service life insurance	—	6,966	6,966	455	—	7,421
Total	$9,302	$70,383	$79,686	$2,215	$100	$82,001

Source: Treasury Department; from hearings on the Federal Budget for 1971, before Committee on Appropriations, House of Representatives, February 1970.

Trust Fund Holdings

Prior to establishment of the social security trust fund (OASI) in January 1940 the investments of trust funds in debt securities were, of course, relatively small. In 1941, trust fund investments totaled about $6.2 billion. By 1951 these investments had grown to $35.9 billion – reflecting the sharp growth of the OASI fund, as well as the unemployment insurance fund, and the national service life insurance fund established in behalf of World War II veterans.

The debt security holdings of the trust funds stabilized in the early 1960's at around $44 billion, but then increased dramatically beginning in 1967. Between June 30, 1966 and December 31, 1969, the amount of debt securities held by these funds rose from about $50 billion to $82 billion.

The old-age and survivors insurance, unemployment insurance, and civil service retirement funds account for about three-fourths of the total debt holdings of all trust funds. Table 6 provides details of the investments status of the major funds at the end of 1969.

Interest Paid to Funds

Interest credited to the trust funds on their debt holdings, paid out of general revenues, involves substantial amounts. It is estimated that in the 1971 fiscal year the interest income of these funds will exceed $4 billion – about one-fifth of total budget outlays for interest.

The interest commitment to the trust funds has frequently been the subject of debate. When the original Social Security Act was under consideration in the House of Representatives, the issue was raised in connection with the establishment of the "old-age reserve account," subsequently to become the OASI trust fund. Representative Treadway of Massachusetts protested the investment requirement and interest commitment, arguing that "even if our debt should be retired, our taxpayers would still have to pay . . . interest on the annuity reserve. . . . This interest must be paid whether the government has any use for [the reserve fund monies] or not."[9] On the other hand, it can be argued that the taxes or contributions paid to the trust funds represent a kind of "compulsory lending," for which payment of interest is justifiable.

It also has been argued that elimination of interest payments to trust funds would result in budget savings, through reduction of benefit or program levels. Others contend that interest elimination would not reduce budget outlays, and would more likely result in increases in the tax and contribution levels which provide basic financing of those funds. Certainly in the case of the social insurance trust funds their outlays are determined primarily by the levels of benefits, and thus would presumably be unaffected by a decision to terminate inter-

9. *Congressional Record*, Volume 79, pages 5532-3. The question of retirement of the total Federal debt is, of course, an academic one.

Table 7

Interest Payments to Major Trust Funds

Fiscal Years 1960-1969
(Millions)

Trust fund	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	Total, 1960-1969
Federal old-age and survivors insurance	$1,008	$ 896	$ 718	$ 587	$ 582	$ 538	$ 511	$ 537	$ 528	$ 515	$ 6,420
	33▴	18▴									51▴
Federal disability insurance	140	83	62	59	65	68	70	70	61	48	726
	9▴	5▴									14▴
Health insurance (funds)	113	75	59	7	—	—	—	—	—	—	254
Unemployment	517	439	383	309	255	213	191	173	204	188	2,872
	20▴	19▴									39▴
Railroad retirement	185	174	157	150	143	130	105	107	111	110	1,372
	13▴	7▴									20▴
Federal employees retirement (funds)	805	705	619	546	482	420	362	316	280	251	4,786
	28▴	16▴									44▴
Highway	52	34	14	8	11	20	14	7	2	2	164
Veterans life insurance (funds)	256	242	225	224	216	210	210	210	213	211	2,217
	24▴	45▴									69▴
TOTAL	$3,076	$2,648	$2,237	$1,890	$1,754	$1,599	$1,463	$1,420	$1,399	$1,325	$18,811
	127▴	110▴									237▴

▴ Interest and profits from investments in participation certificates (shown separately but INCLUDED in totals)

est payments Also, interest income has a prominent place in the actuarial computations of these funds and in the determination of the tax and contribution rates required to finance these programs One effect of eliminating interest might be to require greater use of general fund financing to meet part of the cost of these programs

Whatever the points at issue, interest payments to trust funds do represent a major budget item Table 7 sets forth the interest amounts credited annually to the major trust funds in the 10-year period ending with fiscal 1969 Total interest payments to all the major trust funds over this period amounted to almost $19 billion